




NEWFOUNDLAND
TELEPHONE
COMPANY
LIMITED

Annual Report 1977



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Contents

	Page
President's Message.....	2-3
Report of the Directors.....	4-6
Financial and Corporate Information.....	7-22
Impressions of 1977.....	23-28

Credits
Rostotski, St. John's, page 3;
Tempofoto, pages 5, 6, 24, 25, 26, 27,
and 28.

President's Message

Every enterprise which seeks strength, stability, and excellence must have a strong commitment to serve its customers well, and clearly defined goals to sustain and develop its human resources. Well considered plans to achieve the financial performance which will maintain the confidence of investors and attract new capital are also critical to the Company's success.

During the past year the Company has made great strides in the realization of its major goals: to deliver first-class, reasonably priced telecommunication services to every section of Newfoundland and Labrador, to significantly improve all the financial ratios which are a measure of the integrity of earnings, to record a healthy growth in these earnings and so encourage further investment in the Company, and to put in place a new efficient organization which provides the opportunities that will permit our employees to develop and prosper.

The outstanding achievements of the past year recorded in the Report of the Directors are a testimony to the commitment and dedication of our employees to the task of building a strong and successful enterprise.

By mid-1978 we will have completed the construction of a backbone of high quality microwave systems connecting all parts of the province with mainland Canada. This together with the continued modernization of our plant places the Company in a firm position to market a wide range of telecommunication services and to generate a higher level of revenues.

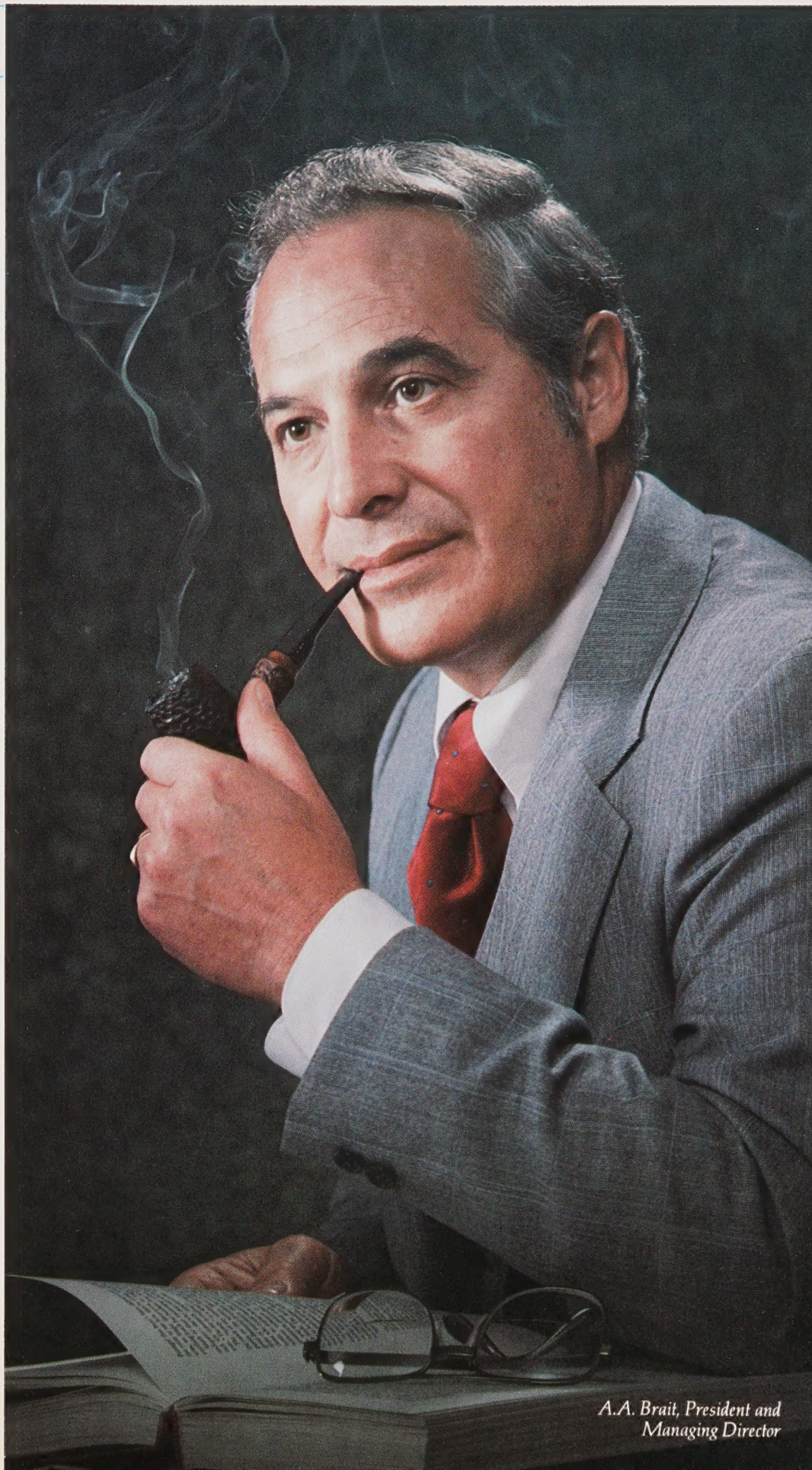
Over the past ten years your Company has experienced extraordinary growth and, we believe, has matured in the process. However, in 1977 growth in the provincial economy slowed. Our ability to adjust to a period of slower growth and persistent inflation makes it possible to look forward to 1978

NEWFOUNDLAND TELEPHONE COMPANY LIMITED

with assurance. The telecommunication sector continues to out-perform the economy as a whole and presents increased opportunities for additional services for the benefit of customers, employees and investors alike.

Particularly in periods of economic stress the supplier of monopoly services necessarily comes under intensive scrutiny and questioning. Your Company along with the other telephone carriers in Canada will have to devote an increasing proportion of its human resources to the job of informing its many publics. The continued health of the industry and the Company depends on the achievement of a better understanding of the principles which have enabled us to build the effective system that we have today, and which are essential to its continued well-being. We are confident that we can achieve this greater understanding and provide an effective reply to the challenges ahead.

A.A. Brait



*A.A. Brait, President and
Managing Director*

NEWFOUNDLAND TELEPHONE COMPANY LIMITED

Report of the Directors

1977 has been a very successful year for your Company. Revenues have grown at a steady rate, and because of a continuing program of restraint and substantial improvements in productivity, the rate of increase in our expenses has declined in comparison with previous years. These factors have stabilized our financial position and enabled us to meet our earnings objectives. The market price of the Company's common shares has risen from 6 7/8 at the close of 1976 to 8 1/2 as of December 31, 1977.

Earnings per average common share for the twelve-month period amounted to \$1.06, up 10.4 percent from 1976. Newfoundland Telephone's rate of return on average total capital for the year was 10.92 percent, compared to 10.74 percent in 1976. The Company's rate of return on average common equity for 1977 was 14.27 percent, compared to 13.63 percent for the previous year.

This was our most active year in the capital markets. In April the Company completed a \$10 million issue of 8.85% Cumulative Redeemable Preferred Shares, Series C. The issue sold at the par value of \$20 per share. In October the Company was successful in having its bond rating upgraded to an A by the two major Canadian bond rating agencies. This is a significant achievement which will have a beneficial effect on the marketability of the Company's securities. This was evident when, in December, we completed a \$20 million issue of first mortgage bonds. The bonds sold at par at an interest rate of 9.85% and will mature in 1997.

The proceeds from our external financing have been used to retire outstanding bank loans which were incurred to finance our construction program.

Regulatory Activity

In January Newfoundland Telephone applied to the Board of Commissioners of Public Utilities of Newfoundland for a general increase in its approved tariff of rates. In its Order dated April 22, 1977 the Board granted the Company an increase in rates which provided approximately \$3.1 million of additional revenues for 1977, and will result in an estimated \$5.1 million of additional revenues in 1978.

The Board determined that a just and reasonable rate of return on average common equity lies in the range of 13.5 and 14.5 percent, and that the allowable rate of return on average rate base would be in the range of 10.68 to 10.99 percent.

Capital Expenditures

In 1977 Newfoundland Telephone spent \$29.8 million to allow for growth in the local and long distance networks, to provide the most efficient technology available and to maintain and upgrade facilities.

Direct Distance Dialing (DDD) was introduced to the Trinity-Conception Bay area in June. The completion of this project means that 100 percent of our Island subscribers now have DDD.

In June work began on a \$2.4 million expansion program to the Mount Pearl exchange building. This project, which is scheduled for completion in mid-1978, will provide for future growth and new services.

In November we initiated a \$6 million project to construct a new central office in Grand Falls. The new building will house an electronic switching system as well as a new business office which will serve the entire central Newfoundland area.

By December, site, tower and antennae construction had been completed on our \$6 million trans-Island microwave system. Scheduled for completion in mid-1978, the system will provide high quality voice, video and data transmission facilities well into the future.

Extensive work was also carried out on our microwave systems in Labrador during 1977. A 400-mile heavy-route microwave system extending from L'Anse au Loup to Happy Valley-Goose Bay went into service in December. This system provides a direct link with the Island and will provide DDD service to major centres in Labrador by early 1978. In addition, a light-route microwave system was put into service on the south coast of Labrador, serving the communities between L'Anse au Loup and Charlottetown. This system was later extended to Cartwright. Finally, Davis Inlet was added to the Happy Valley-Goose Bay-Nain microwave system in June.

Complementing the extension of our microwave systems, the Company established a Provincial Service Coordination Centre in December, providing a central point from which the entire provincial network can be monitored and trouble spots detected immediately.

At year-end the Company had a total investment in plant and equipment of approximately \$212,800,000 or \$1,300 per telephone in service. Telephone service provided by the Company compares favourably with all other areas of Canada.

Service Development

During 1977, 5,579 telephones were added to the system, bringing total telephones in service to 164,193. Completed long distance messages increased by 8.6 percent to approximately 13 million indicating an increased reliance on telecommunications by all sectors of the economy.

There were several major service developments during the year. Centrex, an advanced switching system designed to provide service to large users with sophisticated needs, was expanded to cover several St. John's business customers, including the Health Sciences Centre and the Canada Summer Games.

NEWFOUNDLAND TELEPHONE COMPANY LIMITED

Business communication offerings were enhanced with the introduction of the efficient and versatile Logic 20 telephone, the Logic Dialer which stores and automatically dials 32 most-frequently-called numbers and the Companion 2 speakerphone for "hands free" calling.

In the field of data communications, Datapac, the country's first "packet switched" shared data transmission network, was introduced to the province in June and VuCom 4 was added to the Company's range of data access and retrieval terminals.

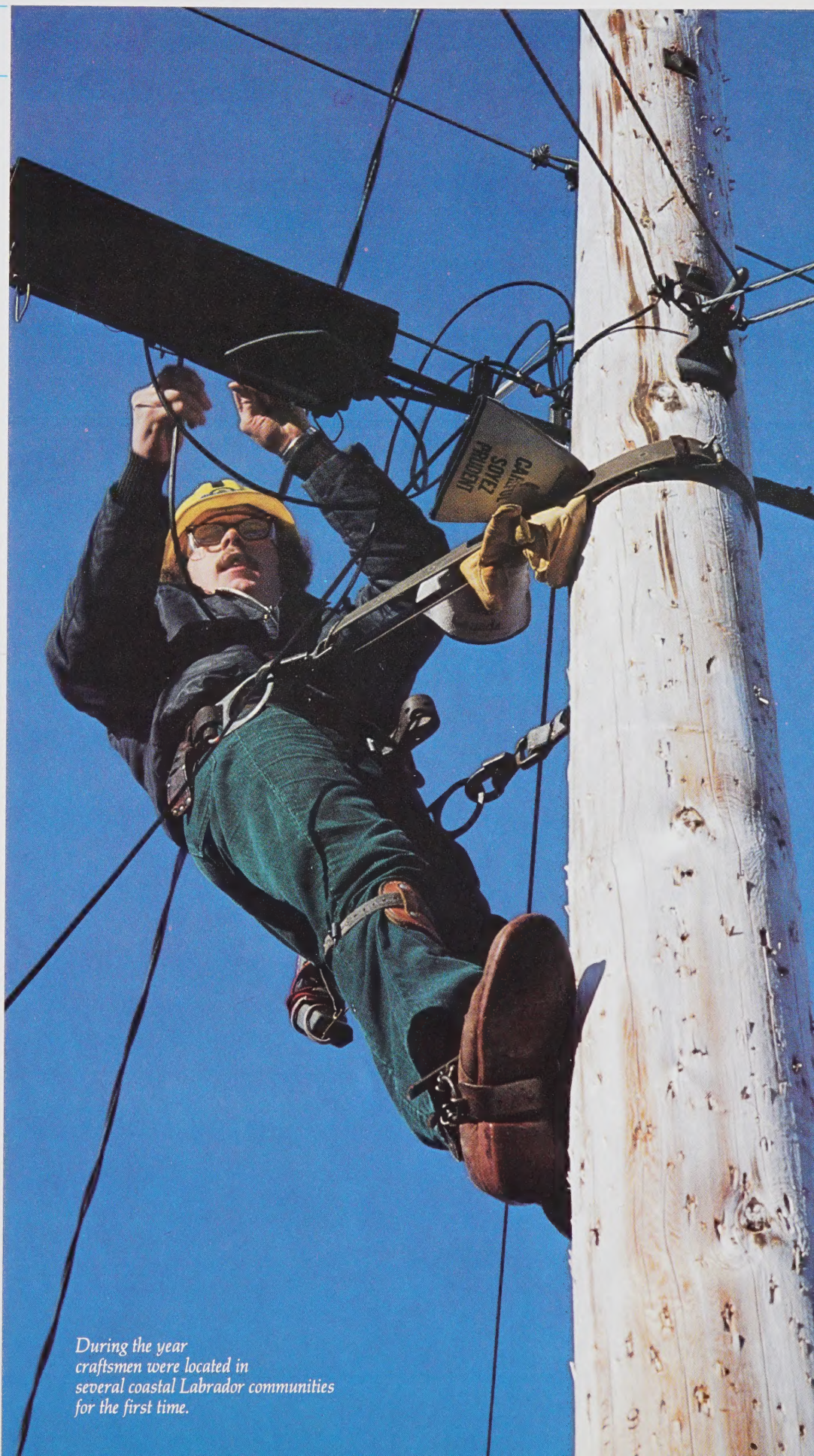
For residence customers, service quality improvements were made possible with the extension of the microwave systems and additional electronic switching systems. These improvements were augmented by the introduction of TouchPhone, which permits universal access to push-button dialing service. TouchPhone has received a very enthusiastic response from our customers, exceeding Company expectations.

Employee and Community Relations

Newfoundland Telephone employed 1,349 people at year-end. Salaries in 1977 amounted to \$17,712,335 and the Company paid \$1,871,786 in benefits and pension fund contributions.

Recognizing the important effect of employee health on productivity and morale, we officially opened our new Health Services Centre in September. The Centre, which supplies one of the most advanced industrial medicine programs in Newfoundland, provides a full range of employee health services. In addition to employee health programs the Centre will be playing an increasing role in advising management on safety and working conditions.

Two collective agreements, covering about 600 employees, were signed in 1977 with the International Brotherhood of Electrical Workers, Local 1615. The first agreement, covering 200 operators, renegotiated basic pay rates for the final year of a two-year contract which expires February 28, 1978.



During the year craftsmen were located in several coastal Labrador communities for the first time.

NEWFOUNDLAND TELEPHONE COMPANY LIMITED

The second agreement, covering some 400 craft employees, expires March 31, 1978. Both agreements fell within the guidelines established by the Anti-Inflation Board for the second year of its program.

Newfoundland Telephone played a major role during the Canada Summer Games held in St. John's in August. The Company provided most of the communication facilities required by the Summer Games Committee and the media.

In September the Company completed its internal reorganization. The new organization, which better aligns staff and service functions, is more properly equipped to respond to the needs of a changing corporate environment.

Senior Executive Changes

The appointment of R.H. Montgomery as Director-Planning and as an officer of the Company was announced March 15. Mr. Montgomery replaced L. A. Cox.

At the Company's Annual General Meeting of Shareholders held March 30, John H. Farrell, Vice-President-Regulatory Matters, Bell Canada, was elected to the Board of Directors. Mr. Farrell replaced John F. Stinson, who retired from the Board after five and one-half years of service. The Directors wish to record their appreciation of the valuable contribution made by Mr. Stinson to the Company.

Outlook

Prospects are favourable for a modest upturn in the provincial economy in 1978. An improvement in any of the major sectors of the economy would have a beneficial impact on the demand for the Company's services.

In the area of business and service development, the Company plans to introduce an electronic digital business communication system for large, single location customers. Data communication services will be made available to Labrador business customers for the first time. As well, new product and service offerings are being considered for our residence subscriber market.

While the size of our annual construction program has levelled off in recent years, we anticipate a year of modest growth in 1978. Our construction program will be approximately \$28 million. These expenditures will be directed into our Grand Falls building project, completion of the trans-Island microwave system and various expansion programs for Mount Pearl, Corner Brook and several Labrador communities.

Newfoundland Telephone looks forward to 1978 confident that the ingredients are in place for continued progress on all fronts and for a satisfactory growth in earnings.



A.A. Brait
President & Managing Director
February 9, 1978.

The Company completed site, tower and antennae construction on the trans-Island microwave system in December 1977.





FINANCIAL
AND
CORPORATE
INFORMATION

NEWFOUNDLAND TELEPHONE COMPANY LIMITED

1977 Financial Highlights

	Year 1977	Year 1976	Changes
Revenues			
Local service	\$ 23,011,960	\$ 19,840,754	\$ 3,171,206
Long distance service	36,750,013	31,504,046	5,245,967
Miscellaneous income – net	700,299	1,001,189	(300,890)
Total revenues	<u>60,462,272</u>	<u>52,345,989</u>	<u>8,116,283</u>
Expenses			
Operating expenses	39,349,285	34,110,906	5,238,379
Income taxes	4,940,361	3,735,148	1,205,213
Interest charges	7,591,806	7,721,220	(129,414)
Total expenses	<u>51,881,452</u>	<u>45,567,274</u>	<u>6,314,178</u>
Net Income	<u>\$ 8,580,820</u>	<u>\$ 6,778,715</u>	<u>\$ 1,802,105</u>

Financial Results:

Total revenues increased by 15.5%.

Total expenses increased by 13.9%.

Construction expenditures amounted to \$29,758,135.

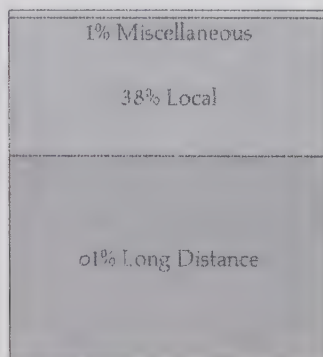
Investment in plant and equipment reached \$212,817,180.

Rate of return on average total capital was 10.92%.

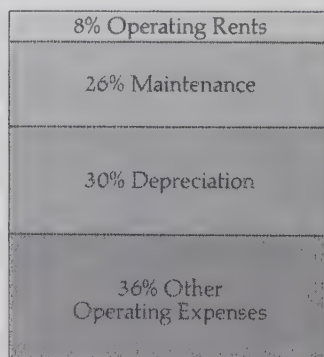
Rate of return on average common equity was 14.27%.

Dividends paid per common share were \$0.60.

Breakdown of Operating Revenues 1977

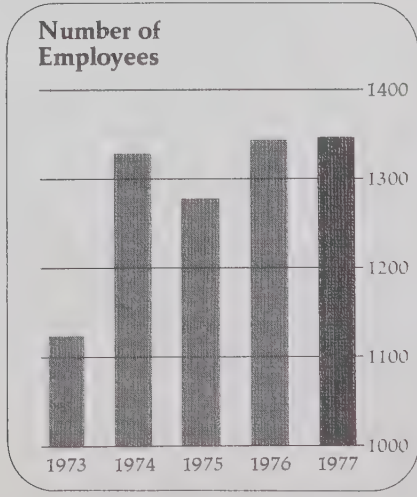
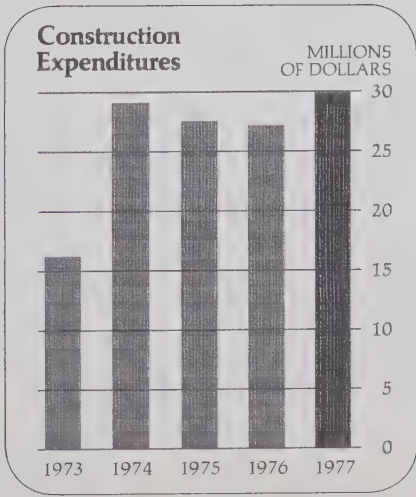
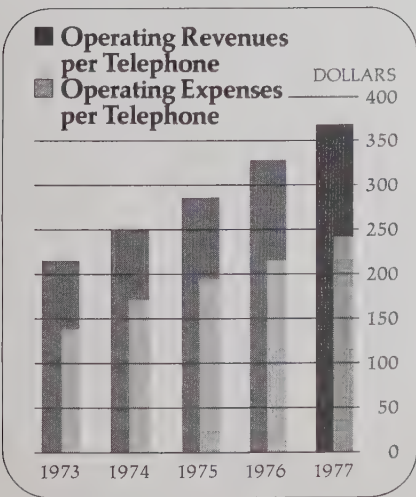
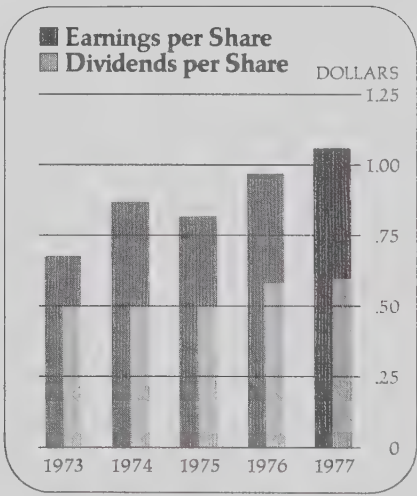
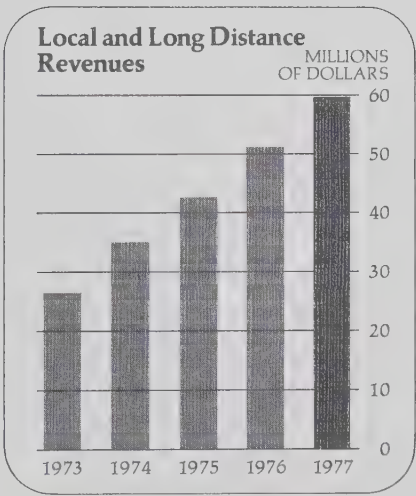
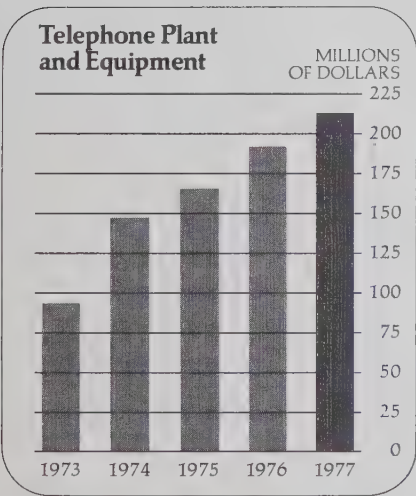
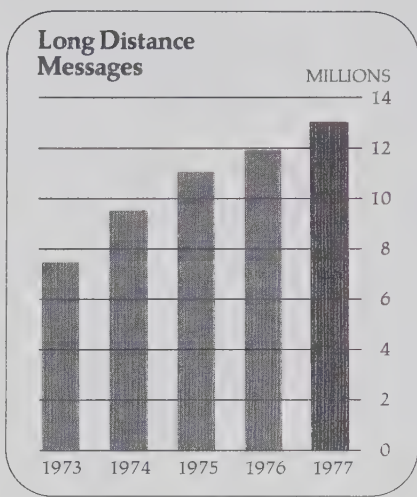
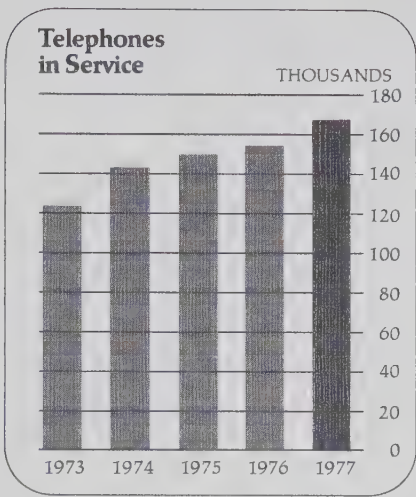
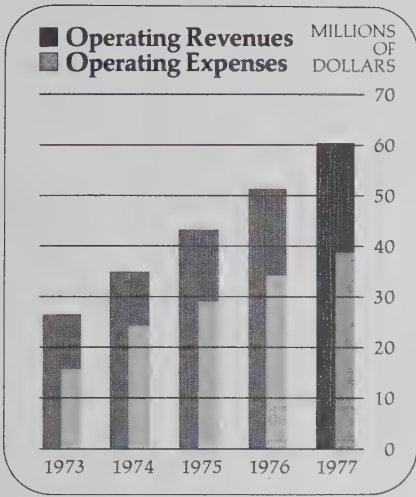


Breakdown of Operating Expenses 1977



NEWFOUNDLAND TELEPHONE COMPANY LIMITED

Operating and Financial Statistics



1977 Highlights

Financing

April

Issue of \$10 million of 8.85% Cumulative Redeemable Preferred Shares, Series C, sold at the par value of \$20 each.

October

Company's bond rating upgraded to an A by the two major Canadian bond rating agencies.

December

Issue of \$20 million of long term first mortgage bonds, sold at par at an interest rate of 9.85% to mature in 1997.

Regulatory Activity

April

Decision on Company's general rate application, providing approximately \$3.1 million of additional revenues in 1977, and an estimated \$5.1 million in 1978.

Capital Expenditures

March

Light-route microwave system placed into service on the south coast of Labrador, serving communities between L'Anse au Loup and Charlottetown.

June

The Labrador community of Davis Inlet incorporated into the Happy Valley-Goose Bay-Nain microwave system built in 1975.

Direct Distance Dialing (DDD) introduced to the Trinity-Conception Bay area, thus providing DDD to 100 percent of the Company's Island customers.

Initiation of a \$2.4 million expansion program in Mount Pearl.

November

A \$6 million expansion program begun in Grand Falls, with sod turning for new building.

December

Completion of the trans-Labrador microwave system, extending from L'Anse au Loup to Happy Valley-Goose Bay. The system provides a direct link with the Island.

Site, tower and antennae construction completed on the \$6 million trans-Island microwave system, scheduled for completion by mid-1978.

Provincial Service Coordination Centre established, providing centralized network monitoring capability.

Service Development

February

The Logic 20 telephone, Logic Dialer and Companion 2 speakerphone added to business communication offerings.

Centrex expanded to serve several St. John's businesses.

June

Datapac, the country's first "packet switched" shared data transmission network, introduced to the province.

October

The introduction of TouchPhone, permitting universal access to push-button dialing.

NEWFOUNDLAND TELEPHONE COMPANY LIMITED

Income Statement

	Year 1977	Year 1976
Operating Revenues		
Local service	\$ 23,011,960	\$ 19,840,754
Long distance service	36,750,013	31,504,046
Miscellaneous – net	409,030	326,159
Total Operating Revenues	<u>60,171,003</u>	<u>51,670,959</u>
Operating Expenses		
Depreciation (Notes 1 and 2)	11,710,587	10,114,509
Maintenance	10,363,610	9,181,013
Operating rents	2,979,856	2,598,139
Other operating expenses	14,295,232	12,217,245
Total Operating Expenses	<u>39,349,285</u>	<u>34,110,906</u>
Net Operating Revenues	20,821,718	17,560,053
Other Income (Note 8)	<u>291,269</u>	<u>675,030</u>
Income Before Underlisted Items	<u>21,112,987</u>	<u>18,235,083</u>
Interest Charges		
Interest on long term debt	5,996,749	5,920,548
Other interest	1,595,057	1,800,672
Total Interest Charges	<u>7,591,806</u>	<u>7,721,220</u>
Income Before Income Taxes	13,521,181	10,513,863
Income Taxes (Notes 1 and 7)	<u>4,940,361</u>	<u>3,735,148</u>
Net Income	8,580,820	6,778,715
Dividends on Preferred Shares	<u>1,740,813</u>	<u>1,172,543</u>
Net Income Applicable to Common Shares	<u>\$ 6,840,007</u>	<u>\$ 5,606,172</u>
Earnings per Common Share (based on average number of shares outstanding)	<u>\$ 1.06</u>	<u>\$ 0.96</u>

NEWFOUNDLAND TELEPHONE COMPANY LIMITED

Balance Sheet

ASSETS	December 31 1977	December 31 1976
Telecommunication Property		
Buildings, plant and equipment – at cost	\$202,950,652	\$185,048,407
Less: Accumulated depreciation (Notes 1 and 2)	<u>53,141,562</u>	<u>49,741,532</u>
	149,809,090	135,306,875
Land and plant under construction – at cost	9,866,528	7,110,808
Materials and supplies (Note 1)	<u>3,405,879</u>	<u>3,345,367</u>
	<u>163,081,497</u>	<u>145,763,050</u>
 Investment – Shares in Telesat Canada – at cost	 <u>300,000</u>	 <u>300,000</u>
 Current Assets		
Short term investments – at cost	7,000,000	—
Accounts receivable – principally from customers and agents	8,943,379	7,165,750
Prepayments	<u>508,108</u>	<u>752,854</u>
	<u>16,451,487</u>	<u>7,918,604</u>
 Deferred Charges		
Unamortized deficiency in accumulated depreciation (Notes 1 and 2)	749,251	824,177
Unamortized long term debt expenses (Note 1)	1,419,568	1,075,740
Other (Note 1)	<u>654,360</u>	<u>811,228</u>
	<u>2,823,179</u>	<u>2,711,145</u>
	<u><u>\$182,656,163</u></u>	<u><u>\$156,692,799</u></u>

On behalf of the Board of Directors:
F.A. O'Dea, Q.C., Director
H. Collingwood, Director

NEWFOUNDLAND TELEPHONE COMPANY LIMITED

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31 1977	December 31 1976
Shareholders' Equity		
Capital stock (Note 3)		
Preferred shares	\$ 22,696,800	\$ 12,981,160
Common shares	34,511,295	34,511,295
Premium on common shares	775,987	775,987
Capital redemption reserve fund (Note 3)	1,303,200	1,018,840
Retained earnings	12,659,883	10,292,703
	<u>71,947,165</u>	<u>59,579,985</u>
Unsecured Subordinated Notes – Due to Parent Company (Note 4)	<u>7,389,941</u>	<u>8,519,941</u>
Long Term Debt (Note 5)	<u>81,478,000</u>	<u>63,194,000</u>
Notes Payable (Note 6)	<u>2,900,000</u>	<u>11,400,000</u>
Current Liabilities		
Bank advance	1,218,310	887,488
Accounts payable	2,483,828	2,256,521
Due to parent company	134,219	368,784
Due to affiliated companies	2,703,007	392,022
Advance billing for service	806,841	661,842
Taxes accrued	2,474,254	2,336,793
Interest accrued	1,422,880	1,332,410
Dividends payable	86,162	49,802
	<u>11,329,501</u>	<u>8,285,662</u>
Deferred Income Taxes (Notes 1 and 7)	<u>7,611,556</u>	<u>5,713,211</u>
	<u>\$182,656,163</u>	<u>\$156,692,799</u>

R.H. Benson, Comptroller

NEWFOUNDLAND TELEPHONE COMPANY LIMITED

Statement of Retained Earnings

	Year 1977	Year 1976
Balance at Beginning of Year	\$ 10,292,703	\$ 9,023,826
Net Income	8,580,820	6,778,715
	<u>18,873,523</u>	<u>15,802,541</u>
Deduct:		
Dividends		
Preferred shares	1,740,813	1,172,543
Common shares	<u>3,889,355</u>	<u>3,342,299</u>
	5,630,168	4,514,842
Transfers to capital redemption reserve fund	284,360	536,640
Expenses on issues of capital stock		
(net of income tax of \$126,612; 1976 - \$185,356)	<u>299,112</u>	<u>458,356</u>
	6,213,640	5,509,838
Balance at End of Year	<u><u>\$ 12,659,883</u></u>	<u><u>\$ 10,292,703</u></u>

NEWFOUNDLAND TELEPHONE COMPANY LIMITED

Statement of Changes in Financial Position

	Year 1977	Year 1976
Source of Funds		
Operations		
Net income	\$ 8,580,820	\$ 6,778,715
Items not requiring current funds		
Depreciation and miscellaneous	11,748,119	9,927,301
Deferred income taxes	1,954,210	1,418,231
	<u>22,283,149</u>	<u>18,124,247</u>
Proceeds from issue of preferred shares	9,574,276	—
Proceeds from issue of common shares	—	8,456,288
Proceeds from issue of long term debt	19,584,500	9,896,892
Decrease in working capital	—	3,504,491
Miscellaneous	316,017	482,216
	<u>\$ 51,757,942</u>	<u>\$ 40,464,134</u>
Disposition of Funds		
Construction expenditures		
Gross construction expenditures	\$ 29,758,135	\$ 27,076,108
Deduct: Charges to construction		
not requiring an outlay of funds	(810,277)	(1,256,873)
Increase in materials and supplies	60,512	1,106,417
	<u>29,008,370</u>	<u>26,925,652</u>
Dividends – Preferred	1,740,813	1,172,543
– Common	3,889,355	3,342,299
Redemption of preferred shares	284,360	536,640
Repayment of subordinated notes	1,130,000	1,130,000
Repayment of long term debt	1,716,000	557,000
Net repayment of notes payable	8,500,000	6,800,000
Increase in working capital	5,489,044	—
	<u>\$ 51,757,942</u>	<u>\$ 40,464,134</u>
The increase (decrease) in working capital is accounted for by:		
Increase (decrease) in current assets:		
Short term investments	\$ 7,000,000	\$ —
Accounts receivable	1,777,629	(1,068,092)
Income taxes recoverable	—	(668,626)
Prepayments	(244,746)	375,597
(Increase) decrease in current liabilities:		
Bank advance	(330,822)	412,532
Accounts payable	(227,307)	(363,562)
Due to parent company	234,565	(77,832)
Due to affiliated companies	(2,310,985)	386,521
Advance billing for service	(144,999)	(115,459)
Taxes accrued	(137,461)	(1,926,792)
Interest accrued	(90,470)	(458,482)
Dividends payable	(36,360)	(296)
	<u>\$ 5,489,044</u>	<u>\$ (3,504,491)</u>

Notes to Financial Statements

1. Accounting Policies

System of Accounts

The Company is subject to regulation, including examination of accounting practices, by the Board of Commissioners of Public Utilities of Newfoundland ("Board of Commissioners"). The system of accounts and accounting practices are similar to those being used in the telecommunication industry except as described in Note 7 with respect to accounting for income taxes.

Depreciation

Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets. When depreciable telecommunication property is retired, the amount at which such property has been carried in telecommunication property is charged to accumulated depreciation (See Note 2).

Income Taxes

Tax allocation accounting has been followed with respect to timing differences other than those related to differences between capital cost allowances and depreciation (See Note 7).

Materials and Supplies

Materials and supplies consist of items which will be used in the construction program and are valued principally at average cost.

Deferred Charges

Expenses incurred for other than long term debt are being amortized as ordered by the Board of Commissioners (See Note 2). Expenses incurred in connection with the issue of long term debt are amortized on a straight line basis over the life of the debt.

2. Depreciation

Commencing July 1, 1966 the provision for depreciation has been accumulated at rates for each class of plant determined by the Company's engineers and approved by the Board of Commissioners. Prior to July 1, 1966 depreciation was provided in varying amounts, not exceeding the rate of 3.3%, approved by the Board of Commissioners on January 14, 1952, which resulted in an accumulated depreciation deficiency as at June 30, 1966 estimated at \$3,390,000.

Effective January 1, 1967 the Company began to amortize the accumulated depreciation deficiency at the rate of \$170,000 per annum. This amortization was subsequently cancelled by the Board of Commissioners by its Order No. 6 dated March 27, 1968, ordering the Company to account for the accumulated depreciation deficiency in the following manner:

1) a charge against retained earnings	\$ 218,500
2) the elimination of the deferred credits - income tax as of June 30, 1966	1,673,000
3) the setting up of the remaining amount in a special account which is being amortized over a period of 20 years commencing on January 1, 1968	1,498,500
	<u>\$3,390,000</u>

The depreciation expense for the year ended December 31, 1977 was \$11,710,587 (1976 - \$10,114,509) and the composite rate was 6.40% (1976 - 6.08%).

3. Capital Stock

Authorized

250,000	7.25% cumulative redeemable preferred shares of the par value of \$20 each
*450,000	9.75% cumulative redeemable preferred shares of the par value of \$20 each
500,000	8.85% cumulative redeemable preferred shares, Series C, of the par value of \$20 each
*9,000,000	common shares without par value.

		December 31	
Outstanding		1977	1976
220,840	7.25% preferred shares (1976 227,090 shares)	\$ 4,416,800	\$ 4,541,800
414,000	9.75% preferred shares (1976 421,968 shares)	8,280,000	8,439,360
500,000	8.85% preferred shares, Series C	10,000,000	Nil
		<u>\$22,696,800</u>	<u>\$12,981,160</u>
6,482,259	common shares (1976 6,482,259 shares)	\$34,511,295	\$34,511,295

*By Special Resolution of the ordinary shareholders passed on March 24, 1976, (i) the authorized capital of the Company was reduced by the cancellation of 50,000 cumulative redeemable preferred shares of the par value of \$20 each, which 50,000 cumulative redeemable preferred shares had been authorized but not issued or agreed to be issued, and (ii) the ordinary shares of the par value of \$5 each were converted into the same number of common shares without par value.

On June 14, 1976 the Company issued for cash 1,400,000 common shares without par value at a price of \$6.50 per share.

On April 25, 1977 the Company issued 500,000, 8.85% cumulative redeemable preferred shares, Series C, of the par value of \$20 each.

The 7.25% cumulative redeemable preferred shares may be redeemed at the Company's option in whole or in part for a redemption price of \$21.20 if redeemed on or before September 15, 1978, \$21.00 thereafter to September 15, 1981, \$20.80 thereafter to September 15, 1984, \$20.60 thereafter to September 15, 1987, \$20.40 thereafter to September 15, 1990 and \$20.20 thereafter.

The 9.75% cumulative redeemable preferred shares are not redeemable prior to May 15, 1980 other than for sinking fund purposes but may be redeemed thereafter at the Company's option in whole or in part for a redemption price of \$21.40 if redeemed on or before May 15, 1983, \$21.20 thereafter to May 15, 1986, \$21.00 thereafter to May 15, 1989, \$20.80 thereafter to May 15, 1992, \$20.60 thereafter to May 15, 1995, \$20.40 thereafter to May 15, 1998 and \$20.20 thereafter.

The 8.85% cumulative redeemable preferred shares, Series C, are not redeemable prior to April 15, 1982 but may be redeemed thereafter at the Company's option in whole or in part for a redemption price of \$21.20 if redeemed on or before April 15, 1985, \$21.00 thereafter to April 15, 1988, \$20.80 thereafter to April 15, 1991, \$20.60 thereafter to April 15, 1994, \$20.40 thereafter to April 15, 1997 and \$20.20 thereafter.

During the year ended December 31, 1977, 6,250 of the 7.25% preferred shares of the aggregate par value of \$125,000 and 7,968 of the 9.75% preferred shares of the aggregate par value of \$159,360 were purchased for cancellation pursuant to the provisions attaching to these preferred shares.

As required by The Companies Act (Newfoundland), equal amounts have been transferred from retained earnings to the "capital redemption reserve fund".

4. Unsecured Subordinated Notes – Due to Parent Company

Series A Unsecured Subordinated Notes – These notes of \$6,780,000 (1976 – \$7,910,000) payable to Bell Canada bear interest at ¼ of 1% above a Canadian chartered bank's prime rate subject to a minimum annual rate of 7% and a maximum annual

rate of 9%. These notes mature in equal amounts serially in each of the years ending December 31, 1978 to 1983 inclusive.

Series B Unsecured Subordinated Note – This note of \$609,941 (1976 – \$609,941) payable to Bell Canada under the same interest conditions set forth for subordinated notes "A" matures on December 31, 1983.

These notes are redeemable at par without penalty at the option of the Company.

5. Long Term Debt

Series	Maturity	Issued	Outstanding
First Mortgage Sinking Fund Bonds			
5½%	June 1, 1978	\$ 1,000,000 (A)	\$ 790,000
6%	June 1, 1979	1,000,000 (A)	820,000
7%	May 1, 1980	2,000,000 (A)	1,680,000
9¼%	May 15, 1990	7,500,000 (A)	1,288,000
8⅝%	April 15, 1992	7,500,000 (A)	6,600,000
9%	December 1, 1994	15,000,000 (A)	13,800,000
11½%	February 1, 1996	10,000,000 (A)	10,000,000
11%	October 1, 1996	17,500,000 (A) (B)	17,500,000
			<u>52,478,000</u>
First Mortgage Bonds			
7⅞%	November 1, 1978	500,000	500,000
5½%	June 1, 1988	3,000,000	3,000,000
7%	December 15, 1991	3,000,000	3,000,000
7⅞%	November 1, 1993	2,500,000	2,500,000
9.85%	December 1, 1997	20,000,000	20,000,000
			<u>\$81,478,000</u>

(A) Each of the eight series of First Mortgage Sinking Fund Bonds has a sinking fund requiring payment by the Company as follows:

- Series 5½%, 6% and 7% – require payment in each year of an amount equal to 1% of the issued aggregate principal amount of each such series.
- Series 9¼%, 8⅝%, 9%, and 11% – require payment in each year commencing 1975, 1972, 1974 and 1979 respectively of an amount

equal to 2% of the issued aggregate principal amount of each such series.

- Series 11½% requires payment in each year commencing 1982 of an amount equal to 5.7% of the issued aggregate principal amount of the series.

The aggregate amount of payments required in each of the next five years to meet maturities and sinking fund requirements of those series of First Mortgage

Bonds of the Company presently outstanding is as follows:

\$1,273,800 in 1978, \$1,667,700 in 1979, \$2,467,700 in 1980, \$827,700 in 1981 and \$1,397,700 in 1982.

- (B) The holders of any series 11% Bonds have the right to elect that the Company prepay the principal amount of the Bond on October 1, 1979 provided they present the Bonds to the Trustee after October 1, 1978 and prior to April 1, 1979 for notation.

6. Notes Payable

Demand bank loans (unsecured) outstanding at December 31, 1977, bearing interest at a Canadian chartered bank's prime rate, represent interim financing incurred in the expansion of the Company's operations.

7. Income Taxes

The Board of Commissioners gave its approval commencing in 1973 to the use by the Company of the tax allocation basis of accounting for income taxes for timing differences other than those related to differences between capital cost allowances and depreciation. Previously the Company was not permitted to use tax allocation accounting.

Accordingly, since 1973 the Company has provided, as a current operating expense, deferred income taxes on those charges, other than capital cost allowances, which have been expensed for tax purposes but have not yet been charged against income in the financial statements.

As a result of not being permitted to use tax allocation accounting for timing differences between capital cost allowances and depreciation, the Company has not provided for deferred income taxes of \$1,653,000 for the year ended December 31, 1977 (1976 - \$1,173,000). The cumulative amount of deferred income taxes not provided for to December 31, 1977 is estimated to be approximately \$12,729,000.

8. Other Income

Other income includes interest charged to construction of \$292,815 (1976 - \$563,955) less miscellaneous income charges. The interest charged to construction is also included in the item "Charges to construction not requiring an outlay of funds" in the Statement of Changes in Financial Position.

9. Pensions

The Company has a non-contributory plan which provides for service pensions based on length of service and rates of pay. The last actuarial review of December 31, 1975 indicated that all vested benefits were fully funded.

10. Remuneration of Directors and Officers

During the year 1977 the Company was served by 10 directors (1976 - 10 directors). As such their aggregate remuneration from the Company was \$22,000 (1976 - \$19,200).

The Company had 6 officers during 1977 (1976 - 6 officers) and their aggregate remuneration as officers was \$225,312 (1976 - \$213,760). Two of the officers served also as directors of the Company, one of whom received no director's fee.

11. Commitments

Material contractual obligations in respect of long term leases covering circuits, equipment and building space amounted to approximately \$2,859,300 at December 31, 1977 (1976 - \$2,898,900). The estimated minimum amount payable during the five years subsequent to December 31, 1977 is \$1,786,500 (1976 - \$1,690,300). Rentals incurred for the year ended December 31, 1977 amounted to \$2,979,800 (1976 - \$2,598,100).

12. Anti-Inflation Legislation

The Company is subject to the Federal Government's Anti-Inflation legislation which became effective October 14, 1975.

On October 20, 1977 the Canadian Government announced that on April 14, 1978 it will begin to phase out the anti-inflation program. The Anti-Inflation Act and regulations will be amended to specify decontrol procedures and the rules applicable for the balance of the program.

Management is of the opinion that the Company is in compliance with the statute and current regulations.

Auditors' Report

To the Shareholders,
Newfoundland Telephone Company
Limited.

We have examined the balance sheet of Newfoundland Telephone Company Limited as at December 31, 1977 and the statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Chartered Accountants.

St. John's, Newfoundland.
February 9, 1978.



NEWFOUNDLAND TELEPHONE COMPANY LIMITED

Ten Year Statistical Record

		1977	1976	1975
Telephone Service Facts				
Number of telephones		164,193	158,614	150,389
Percent dial	%	100	100	100
Local calls—daily average		2,869,614	2,643,948	2,145,158
Long distance calls—daily average		35,711	32,633	30,395
Income				
Total operating revenues	\$	60,171,003	51,670,959	42,884,148
Other income	\$	291,269	675,030	630,611
Total operating expenses and taxes*	\$	44,289,646	37,846,054	31,258,307
Interest charges	\$	7,591,806	7,721,220	7,106,774
Net income before extraordinary items*	\$	8,580,820	6,778,715	5,149,678
Extraordinary items	\$	—	—	—
Net income*	\$	8,580,820	6,778,715	5,149,678
Selected Balance Sheet Items				
Investment in plant and equipment	\$	212,817,180	192,159,215	169,422,806
Total long term debt	\$	91,767,941	83,113,941	81,600,941
Shareholders' equity*	\$	71,947,165	59,579,985	49,211,108
Financial Ratios				
Earnings per average common share*	\$	1.06	0.96	0.83
Dividends per common share	\$	0.60	0.575	0.50
Equity per common share*	\$	7.60	7.19	7.02
Percent long term debt to total capitalization	%	56.1	58.2	62.4
Rate of return on average total capital*	%	10.92	10.74	10.15
Interest in percent of average debt	%	8.68	9.38	9.06
Times interest earned before taxes*		3.23	2.78	2.38
Other Statistics				
Construction expenditures	\$	29,758,135	27,076,108	27,323,473
Plant investment per telephone	\$	1,296	1,211	1,127
Number of employees		1,349	1,347	1,278
Salaries and wages paid	\$	17,712,335	15,936,727	13,583,388

*Results reflect

(1) Tax payable basis for 1968 to 1972

(2) Partial tax allocation basis for 1973 to 1977

NEWFOUNDLAND TELEPHONE COMPANY LIMITED

1974	1973	1972	1971	1970	1969	1968
142,058	123,157	109,829	100,664	92,991	88,247	82,645
99	99	97	97	96	95	94
1,949,919	1,690,456	1,516,542	1,290,705	1,108,248	979,179	849,092
26,052	20,594	17,534	15,068	14,384	13,562	12,619
35,398,838	26,177,774	22,207,582	19,174,109	17,450,266	13,261,627	11,675,793
726,289	167,799	52,861	58,379	84,394	31,655	70,856
25,796,798	19,646,744	15,701,200	13,489,574	12,909,281	10,271,669	8,661,571
5,599,005	2,845,919	2,399,889	2,209,441	2,035,149	1,876,109	1,719,395
4,729,324	3,852,910	4,159,354	3,533,473	2,590,230	1,145,504	1,365,683
—	—	—	—	1,113,850	355,181	471,538
4,729,324	3,852,910	4,159,354	3,533,473	3,704,080	1,500,685	1,837,221
146,343,959	94,182,627	79,419,848	70,020,022	62,475,742	55,379,535	50,393,805
75,244,941	43,804,000	30,802,000	30,659,000	25,841,000	24,526,500	24,357,000
39,052,563	37,341,772	36,480,242	30,175,472	28,954,427	23,733,468	20,549,286
0.86	0.69	0.80	0.70	0.80	0.37	0.52
0.50	0.50	0.50	0.45	0.41	0.40	0.40
6.74	6.38	6.19	5.94	5.70	5.34	5.39
65.8	54.0	45.8	50.4	47.2	50.8	54.2
10.54	9.01	10.24	9.93	11.14	7.25	8.24
9.41	7.63	7.81	7.82	8.08	7.68	7.08
2.57	3.81	3.54	3.23	4.84	3.03	3.90
28,614,346	16,243,036	10,610,682	8,642,025	8,044,828	6,514,027	6,708,206
1,030	765	723	696	672	628	610
1,324	1,124	953	877	824	849	835
10,763,803	7,787,214	6,216,497	5,284,000	4,632,144	4,073,949	3,385,373

Corporate Information

Company Location

Newfoundland Telephone
Company Limited
343 Duckworth Street
St. John's, Newfoundland
A1C 5H6

1978 Annual General Meeting

The Annual General Meeting of
Shareholders will take place at
10:00 A.M., Newfoundland Standard
Time, Wednesday, March 29, 1978,
in the Fort William Room, Hotel
Newfoundland, Cavendish Square,
St. John's, Newfoundland.

Listing of Common Stock

Newfoundland Telephone Company
Limited common stock is listed on
The Toronto and Montreal Stock
Exchanges.

Transfer Offices and

Registrar for Common Stock

Montreal Trust Company
253 Duckworth Street
St. John's, Newfoundland
Montreal Trust Company –
Halifax, Montreal, Toronto,
Winnipeg, Regina, Calgary and
Vancouver.

Trustee and Transfer Offices for Bonds

Montreal Trust Company

Directors

L.H.M. Ayre
Chairman, Ayre & Sons, Limited
St. John's, Newfoundland
A. A. Brait
President and Managing Director
Newfoundland Telephone
Company Limited
St. John's, Newfoundland
H. Collingwood
Chairman and President
Baine Johnston & Co. Ltd.
St. John's, Newfoundland
J. H. Farrell
Vice-President – Regulatory Matters
Bell Canada
Ottawa, Ontario
G. L. Henthorn
Vice-President and Comptroller
Bell Canada
Montreal, Quebec
H. L. Lake
Executive Vice-President
The Lake Group Ltd.
St. John's, Newfoundland
A. R. Lundrigan
President, Lundrigans Ltd.
Corner Brook, Newfoundland
M. T. Neill
Resident General Manager
Price (Nfld.) Pulp & Paper Ltd.
Grand Falls, Newfoundland
The Hon. F. A. O'Dea, Q. C.
Senior Partner
O'Dea, Greene, Puddester & Greene
St. John's, Newfoundland
F. J. O'Leary
Chairman, The St. John's Housing
Corporation
St. John's, Newfoundland

Officers

L. H. M. Ayre
Chairman of the Board
A. A. Brait
President and Managing Director
D. G. Wright
Director – Finance
R. H. Montgomery
Director – Planning
R. H. Benson
Comptroller
K. A. A. Marshall
Secretary-Treasurer



NEWFOUNDLAND
TELEPHONE
IMPRESSIONS
1977



"Number please" ...our operators still carry a heavy load of emergency, directory assistance, and person-to-person calling.



Technicians conduct a service check on power equipment associated with transmission facilities.



*Telephone service provided by the
Company to communities in
Newfoundland and Labrador compares
favourably with all other areas in Canada.*



Newfoundland
Telephone